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INTERNATIONAL
9

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HUB LAW OFFICES

10 SUPERIOR COURT OF THE STATE OF CALIFORNIA
11 FOR THE COUNTY OF MARIN

12 CHURCH OF SCIENTOLOGY)
13 INTERNATIONAL, a California not-for-profit)
religious corporation,)

14)
15 Plaintiff,)

16 vs.)

17)
18 GERALD ARMSTRONG; MICHAEL)
WALTON; THE GERALD ARMSTRONG)
CORPORATION, a California for-profit)
19 corporation; DOES 1 through 100,)
inclusive,)

20)
21 Defendants.)

CASE NO. 157 680

PLAINTIFF'S MEMORANDUM OF
POINTS AND AUTHORITIES IN
OPPOSITION TO DEMURRER AND
MOTION TO STRIKE

DATE: November 19, 1993
TIME: 9:00 a.m.
DEPT: 1

DISCOVERY CUT-OFF: None
MOTION CUT-OFF: None
TRIAL DATE: None

22 **INTRODUCTION**

23 This is a simple action to set aside fraudulent conveyances undertaken by the
24 defendants in Marin County in 1990. The complaint plainly and succinctly states
25 claims against defendant Michael Walton ("Walton"), the only demurring defendant.
26

27 Walton argues that the complaint fails to state a claim against him first,
28 because it is vague and uncertain and second, because plaintiff Church of Scientology

1 Fraudulent Transfer Act. Walton is wrong on both counts: his argument that the
2 complaint is "vague" is made possible only by a selective reading of the complaint;
3 his argument that the Church is not a creditor is made possible only by a selective
4 reading of the law.

5 Walton also argues, confusingly, that this action to set aside the fraudulent
6 conveyance to him of property must be adjudicated in the same action in which the
7 underlying debt between Armstrong and the Church is adjudicated, calling this a
8 "motion to strike." Once again, Walton is wrong. The law is crystal clear that a
9 creditor may act to protect his interests in a debtor's property in an action separate
10 and distinct from any action made necessary by the debtor to reduce the creditor's
11 interest to judgment. ¹

12 Finally, Walton argues, with no basis in fact or law, that the Church has filed
13 this action to "harass" him and has come "sneaking" into this court. Nothing could
14 be farther from reality. The truth, as alleged in the Complaint, and admitted by
15 Armstrong in deposition, is that Armstrong conveyed his property to Walton in 1990,
16 accepting no consideration in return, and then began deliberately breaching his
17 agreement with the Church, considering that he had "nothing to lose." Under the
18 terms of the Fraudulent Conveyance Act, the Church was obligated to bring this
19 action, or risk losing its claim to the property that Walton is fraudulently holding for
20 Armstrong. The existence of the Los Angeles actions, and the fact that the Church's
21 claims have not yet been reduced to a judgment, have not been withheld from the
22 Court, but are plainly and fully alleged in the complaint.

23 Walton's demurrer must be overruled, and his motion to strike denied.

24 ///

25 ///

26

27 ¹ Indeed, in ruling on defendant Armstrong's recent motion to consolidate the
28 cases, this Court recently found that the cases, while related, have no common
questions of fact or law.

STATEMENT OF FACTS

1
2 The complaint alleges² that in or about August, 1990, defendant Gerald
3 Armstrong fraudulently transferred property, without consideration, to his attorney,
4 defendant Walton, and his alter ego, the Gerald Armstrong Corporation, in an effort
5 to make Armstrong "judgment proof." [Complaint, ¶¶ 27 - 32, 34 - 39.] It also
6 alleges that Armstrong entered into a contract with plaintiff in 1986, [Id., ¶ 13] that
7 the contract contained, inter alia, provisions for both liquidated and consequential
8 damages in the event of breach, [Id., ¶ 16] and that Armstrong, beginning in
9 February, 1990, breached the contract. [Id., ¶ 22.]³ Armstrong is alleged to have
10 received substantial consideration from the Church under the contract. [Id., ¶ 20.]
11 Further, the complaint alleges that Armstrong's breaches gave rise to claims by
12 plaintiff, which have not yet been reduced to judgment, but which are the subject of
13 two pending actions. [Id., ¶ 3.]

14 The complaint also alleges that at the time Armstrong transferred property to
15 Walton, he intended to engage in conduct in the future which would breach his
16 contract with plaintiff. [Id., ¶¶ 30, 37.] The complaint also alleges that Walton
17 received the property from Armstrong in 1990 with full knowledge that Armstrong
18 intended to: (1) hinder, delay or defraud the collection of the Church's damages which
19 had already accrued; and (2) further breach his contract with the Church, thus
20 incurring further substantial damages which Armstrong would now be unable to pay.
21 [Id., ¶¶ 32, 39.]

22 These facts give rise to three causes of action: to set aside the fraudulent
23

24 ² For purposes of demurrer, all of the facts alleged in the complaint are assumed
25 to be true. Fuhrman v. California Satellite System (1986) 179 Cal.App.3d 408,
26 422, 231 Cal.Rptr. 113. Walton has cited no facts which support his motion to
strike.

27 ³ The property which Armstrong transferred is in Marin. The Agreement,
28 however, retained jurisdiction for breaches in Los Angeles. Hence, these actions
are brought in different counties.

1 conveyance of real property, to set aside the fraudulent conveyance of personal
2 property, and for damages for conspiracy to defraud.

3 ARGUMENT

4 I. The Church Is A Creditor Protected By The 5 Uniform Fraudulent Conveyances Act

6 The Uniform Fraudulent Transfer Act protects creditors to whom a debt is owed
7 within the meaning of the act. Civil Code § 3439.07. A "creditor" is defined as "a
8 person who has a claim" against a debtor. C.C. §3439.01(3)(c). A "claim" is "a right
9 to payment, whether or not the right is reduced to judgment, liquidated, unliquidated,
10 fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured
11 or unsecured." C.C. § 3439.01(b). Thus, a creditor need not show that a particular
12 claim has been prosecuted to judgment in order to state a claim for relief for
13 fraudulent conveyance. See, Weisenburg v. Cragholm (1971) 5 Cal.3d 892, 896, 97
14 Cal.Rptr. 862, 489 P.2d 1126.

15 The Act also provides, in relevant part, that a transfer is fraudulent, "whether
16 the creditor's claim arose before or after the transfer was made. . . if the debtor made
17 the transfer . . ." under two circumstances: "[w]ith actual intent to hinder, delay, or
18 defraud any creditor of the debtor;" or "[w]ithout receiving a reasonably equivalent
19 value in exchange for the transfer," when the debtor "intended to incur, or believed
20 or reasonably should have believed that he or she would incur, debts beyond his or
21 her ability to pay as they became due." C.C. §3439.04.

22 The Complaint in this case fully and completely alleges each of the necessary
23 components to state a claim under this act, Walton's pretended obtuseness
24 notwithstanding. Paragraph 13 of the Complaint alleges that Armstrong entered into
25 a settlement Agreement with the Church in 1986, and even attaches and incorporates
26 a copy of the Agreement at Exhibit A. Paragraph 16 of the Complaint alleges that the
27 Agreement provided for liquidated damages in the event of certain breaches, which
28 are described. [See, also, Paragraph 7(D) of Exhibit A, the liquidated damages clause.]

1 Paragraph 22 of the Complaint states that Armstrong first breached the Agreement
2 in February, 1990, entitling the Church to damages. Paragraph 27 alleges that in
3 August, 1990, Armstrong owned a piece of real property in Marin County. Paragraph
4 28 alleges that in August, 1990, Armstrong conveyed that property to defendant
5 Walton, and paragraph 31 alleges that Armstrong received no money or other
6 consideration for the transfer. Paragraph 34 alleges that Armstrong owned cash and
7 stock valued at \$1,041,500 in August, 1990. Paragraph 35 alleges that in August,
8 1990, Armstrong transferred these valuables to Walton and presently unknown
9 others, and Paragraph 38 alleges that these transfers, also, were without
10 consideration.

11 Paragraphs 22 and 23 allege that, after transferring the real property and other
12 valuables to Walton and others, Armstrong breached the Agreement willfully and
13 repeatedly, incurring further damages under the Agreement. Paragraph 24 alleges that
14 Armstrong has refused to pay the Church those damages, despite demand, and
15 Paragraphs 3 and 25 allege that Armstrong's breaches are presently the subject of
16 two pending actions.

17 Paragraphs 29, 30, 36, and 37 allege that, at the time Armstrong made these
18 transfers, he did so to hinder, delay or defraud the Church in the collection of the
19 damages already owed, and that he intended in the future to incur further debt by
20 breaching the Agreement again and again.

21 Walton's arguments, in the face of this very clear complaint, demonstrate only
22 an unwillingness to read fully either the Complaint or the Code. Walton argues, for
23 example, that "[a]ccording to plaintiff's pleading, at the time of the transfer and for
24 at least one year thereafter, plaintiff had no cause of action for damages and was not
25 a creditor." [Moving Papers at 9.] The Church, however, has alleged that Armstrong
26 first breached the Agreement in February, 1990, seven months before the transfers
27 took place. [Complaint, ¶ 22.] Armstrong's breach created the Church's claim --
28 under the Code, any "right to payment, whether or not the right is reduced to

1 judgment." C.C. 3439(b). A creditor, of course, is "a person who has a claim." Id.
2 3439(c).

3 Similarly, Walton argues "[n]or is there any allegation that Armstrong did, in
4 fact, incur debts beyond his ability to pay or that he did not pay his debts as they
5 became due in the years following the transfer." [Moving Papers at 9-10.] To the
6 contrary, the Complaint alleges plainly that Armstrong incurred debts to the Church,
7 as defined by the Code (any "liability on a claim") both before and after the transfer,
8 that he did so willfully and repeatedly, and that, despite demand, he has refused to
9 pay. [Complaint, ¶¶ 2, 3, 22, 23, 24, 25.] The Complaint also alleges that the
10 transfers were made to Walton and others deliberately to render Armstrong insolvent
11 and unable to pay those debts. [Id.,
12 ¶ 32, 39, 45.]

13 In short, only by ignoring Code provisions and plain allegations can Walton
14 assert that the Church has not stated a claim for relief from fraudulent transfer against
15 him. His demurrer must be overruled.

16 **II. The Complaint Is Certain And Definite**

17 Walton also devotes a great many pages to complaining, alternately, that the
18 Complaint is not clear enough and that the Complaint is too long. For example,
19 Walton argues that the complaint is "vague and uncertain" because it alleges that
20 Armstrong and the Church entered into an agreement which "allegedly provided for
21 some sort of liquidated damages." The alleged "vagueness" is Walton's, not the
22 Complaint's -- the liquidated damages clause is paraphrased, attached to the
23 Complaint, and incorporated by reference.

24 Walton also asserts that it is "vague" because the Church has not described in
25 detail each of the breaches of the Agreement committed by Armstrong which it hopes
26 to have committed to judgment by the Los Angeles actions. The Church could easily,
27 of course, provide Walton and the Court with that sort of detailed pleading. However,
28 such allegations are simply not relevant to this action. They are already being litigated

1 in another forum and need not be relitigated here.

2 The Uniform Fraudulent Transfers Act protects all creditors' claims, "whether
3 or not reduced to judgment. . . disputed or undisputed." Walton himself asserts that
4 Armstrong's debt to the Church arose "the moment the cause of action [for breach
5 of contract] accrue[d]." [Moving Papers at 9.] The Complaint alleges that Armstrong
6 began breaching the Agreement in February, 1990, and has continued to do so until
7 the present. These allegations are sufficient to establish a debtor/creditor relationship
8 between the Church and Armstrong.

9 Parallel actions to undue fraudulent transfers of property are hardly uncommon.
10 In Hansen v. Cramer (1952) 148 Cal.App.2d 670, 307 P.2d 1059, for example,
11 plaintiff sued defendant for false arrest. While the false arrest action was pending,
12 the defendant transferred property to satisfy a debt of her husband's, rendering
13 herself insolvent. The plaintiff successfully brought a separate action to set aside the
14 fraudulent transfer. No retrial of the false imprisonment issues was required in the
15 fraudulent conveyance action, although the first action was unresolved at the time the
16 fraudulent conveyance action was filed.

17 In this case, the transfers in question occurred in 1990. Through the
18 machinations of Armstrong, trial in the cases for breach of contract has been delayed.
19 Having discovered these transfers made in 1990, the Church is obligated to bring this
20 action to set them aside or risk losing any opportunity to collect damages from
21 Armstrong after its substantive claims are reduced to judgment. C.C. 3439.09 (a), (b).

22 **III. Walton's Motion To Strike Must Be Denied**

23 Finally, Walton argues, without proof, that the Complaint is a "sham" pleading,
24 designed to "harass" him. It should be obvious by now, however, that the Complaint
25 merely reflects the dollars and cents reality that Armstrong's attempt to badger the
26 Church into refilling his coffers has backfired. Armstrong hoped that by giving away
27 his possessions, and then annoying the Church with constant breaches of the
28 Agreement, he could persuade the Church to pay him still more money in order to

1 have peace. The Church, however, has already paid for peace, and paid in
2 abundance.

3 The transfers alleged in the Complaint, and the lack of consideration for those
4 transfers, were uniformly admitted by Armstrong and Walton under oath. [Ex. A,
5 Deposition of Gerald Armstrong, July 22, 1992 at 267:16-269:17; March 10, 1993
6 at 542:3 - 546:5, 553:8 - 556:22; Ex. B, Deposition of Michael Walton, Feb. 24,
7 1993 at 39:5-44:2]. There is nothing "harassing" about a creditor seeking to protect
8 its interests from an admitted and transparent fraud.

9 Moreover, Armstrong has admitted the breaches in the Los Angeles actions; the
10 only defense he claims is that, in his opinion, the Agreement is unenforceable.⁴ Once
11 the Church's claims are reduced to judgment, it will be time to collect. By the
12 maintenance of this action, the Church hopes to ensure that it will, indeed, be able
13 to recover some of the monstrous debt which Armstrong has, by his own intentional
14 actions, incurred.⁵

15 CONCLUSION

16 In August, 1990, Walton and Armstrong conceived and executed a plan:
17 Armstrong would convey his assets to Walton, and then commence a campaign to
18

19 ⁴ Note that Armstrong does not contend that the part of the Agreement which
20 required the Church to pay him money was unenforceable, only the part of the
21 Agreement which required him to end his constant badgering of the Church.

22 ⁵ Walton also adds to his papers a gratuitous attack on the Church, falsely
23 claiming that he is a "victim" of some improper "policy." Anti-Church litigants
24 such as Armstrong are responsible for the genesis of this "black propaganda"
25 campaign against this world-wide religion. However, on October 1, 1993, the
26 Internal Revenue Service issued exemptions to all the active United States
27 Churches of Scientology, concluding after two years of comprehensive
28 examination, that the 153 United States Scientology churches and entities,
including plaintiff, are: (1) bona fide religious organizations; (2) operated
exclusively for religious and charitable purposes; (3) exempt from federal taxation
under 26 U.S.C. § 501(c)(3); and (4) have been so since their incorporation (1981
for Church of Scientology International). Ex. C, Declaration of Thomas C. Spring.

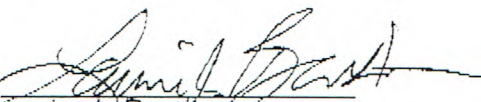
1 harass and annoy the Church by constant breaches of his settlement agreement.
2 Armstrong and Walton thought that the Church would pay Armstrong more money
3 to go away and leave them alone -- after all, the Church had paid in the past, and
4 Armstrong was now "judgment proof."

5 The plan has backfired. The Church is not willing to pay Armstrong -- again --
6 for that which it already bargained and paid for. It has been substantially damaged,
7 and has filed valid claims which will soon be adjudicated in Los Angeles. When those
8 claims are reduced to judgment, the Church would like to be able to collect from
9 Armstrong's assets which were fraudulently transferred to Walton pursuant to the
10 plan. This action was commenced to protect the Church's rights in the assets while
11 the main actions are pending.

12 The Complaint herein is certain, definite, and well-supported in fact and law.
13 Walton's demurrer must be overruled, and his motion to strike denied.

14 DATED: November 12, 1993 Respectfully submitted,

15 BOWLES & MOXON

16
17 By: 
18 Laurie J. Bartison

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20 WILSON, RYAN & CAMPILONGO

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10 SUPERIOR COURT OF THE STATE OF CALIFORNIA
11 FOR THE COUNTY OF MARIN

12 CHURCH OF SCIENTOLOGY)
13 INTERNATIONAL, a California not for-profit)
religious corporation,)

14)
15 Plaintiff,)

16 vs.)

17)
18 GERALD ARMSTRONG; MICHAEL)
WALTON; THE GERALD ARMSTRONG)
CORPORATION, a California for-profit)
19 corporation; DOES 1 through 100,)
inclusive,)

20)
21 Defendants.)

CASE NO. 157 680

) EXHIBITS IN SUPPORT OF
) PLAINTIFF'S MEMORANDUM OF
) POINTS AND AUTHORITIES IN
) OPPOSITION TO DEMURRER AND
) MOTION TO STRIKE

)
)
) DATE: November 19, 1993
) TIME: 9:00 a.m.
) DEPT: 1

)
) DISCOVERY CUT-OFF: None
) MOTION CUT-OFF: None
) TRIAL DATE: None

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IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA

IN AND FOR THE COUNTY OF LOS ANGELES

--oOo--

CHURCH OF SCIENTOLOGY INTERNATIONAL,
a California not-for-profit religious
corporation,

**CERTIFIED
COPY**

Plaintiff,

vs.

No. BC 052395

GERALD ARMSTRONG; DOES 1 through 25,
inclusive,

Defendants.

DEPOSITION OF
GERALD ARMSTRONG

Wednesday, July 22, 1992
Volume II, Pages 179 - 293

REPORTED BY: KATHERINE NG, CSR NO. 6350

1 literary works campaigns.

2 Q. What campaigns does it make?

3 A. It is a contributor and possessor of certain
4 rights within the group known as the Runners against
5 Trash and the same within the organization known as the
6 Organization of United Renounciants.

7 Q. What is the Organization of the United
8 Renounciants?

9 A. It is an organization dedicated to the
10 preservation of the world through peaceful means.

11 Q. What have the people in the organization
12 renounced, if anything?

13 A. The people in the organization renounce money.

14 Q. Does that mean that they give away their money?

15 A. They can if they want.

16 Q. Did you give away the money that the Church
17 paid you in settlement?

18 A. Well, I'm, that's not a very well worded
19 question, because I gave away all my assets including all
20 my money.

21 Q. When?

22 A. When? August 1990.

23 Q. Who did you give it to?

24 A. A number of people.

25 Q. Can you tell me who they are?

- 1 A. No.
- 2 Q. Did you give any of it to Michael Walton?
- 3 A. Yes.
- 4 Q. Why did you give it away?
- 5 A. Because I considered that I was guided to do
- 6 so.
- 7 Q. By whom?
- 8 A. The source of all that is.
- 9 Q. Who is that?
- 10 A. God.
- 11 Q. Now, when God guided you to give away all your
- 12 assets, did he guide you to give them to particular
- 13 people or did you make that decision?
- 14 A. I believe that I was guided each step of the
- 15 way.
- 16 Q. Okay. When you say you gave it away, I take it
- 17 you didn't receive anything in return in terms of
- 18 monetary compensation?
- 19 A. Right.
- 20 Q. Can you tell me why you decided to give some of
- 21 it to Michael Walton?
- 22 A. Because it was logical.
- 23 Q. Why?
- 24 A. And because it was so guided.
- 25 Q. Can you tell me what about it was logical?

1 A. I guess initially it's logical because he was a
2 friend of mine in close proximity to me, and I believed
3 that he had a need at that time.

4 Q. Okay. What did you give him?

5 A. I decline to comment to answer that. I don't
6 see how it fits into this, other than the fact that I
7 gave everything away.

8 Q. I won't press that at this point, but it will
9 be relevant.

10 Q. What did you have in August of 1990 that you
11 gave away?

12 A. Cash, property, stock, rights and debts owed to
13 me.

14 Q. Okay. Let's start with the cash. How much
15 cash did you give away?

16 A. I don't think that that's appropriate for me to
17 get into. I decline to answer.

18 Q. Well, I'll tell you why it's relevant. And if
19 it isn't, it can be made relevant by the complaint.
20 Under the Fraudulent Conveyance Act, fraudulent
21 conveyances are defined in a number of ways, including
22 transfers without considerations, which these are by
23 virtue of Mr. Armstrong's testimony.

24 A. By which you mean therefore every donation made
25 by every Scientologist is of necessity a fraudulent

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SUPERIOR COURT OF THE STATE OF CALIFORNIA
IN AND FOR THE COUNTY OF LOS ANGELES

---oOo---

CHURCH OF SCIENTOLOGY)
INTERNATIONAL, a California)
not-for-profit religious)
corporation,)
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Plaintiff,)
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vs.)
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GERALD ARMSTRONG; DOES)
1 through 25, inclusive,)
)
Defendants.)
_____)

**CERTIFIED
COPY**

Case No. BC 052395

DEPOSITION OF
GERALD ARMSTRONG
VOLUME V
PAGES 525 - 624

WEDNESDAY, MARCH 10, 1993

REPORTED BY: LYNN P. NYLUND, CSR NO. 3696

Mary Hillabrand, Inc.
520 Sutter Street
San Francisco, CA 94102

1 A. Good. Then I will tell you. In various
2 things including stocks, real property, loans.

3 Q. You previously testified that in August of
4 '90 you gave away all of your assets. One of the
5 questions that I also have here is how much of the
6 proceeds from the settlement were still remaining when
7 you gave away all your assets in August of 1990?

8 A. I consider that the assets that I gave away
9 at that time were worth some 1.5 million.

10 Q. So you have done pretty well on your
11 investments?

12 A. I am very conscientious.

13 Q. And to whom did you give away your assets in
14 August of 1990?

15 A. Various people. Along that I have a right
16 to privacy as to what I do with my assets.

17 Q. The trouble is that once again we can go
18 back on the motion to compel.

19 How much cash did you give away in August of
20 1990?

21 A. Is that a question?

22 Q. It is out of your previous deposition.

23 A. I would say approximately 41,500.

24 Q. And you received no monetary consideration
25 for the 41,500 that you gave away; is that correct?

1 A. Correct.

2 Q. And you are not willing to tell me to whom
3 you gave the 41,500?

4 A. Correct.

5 MS. BARTILSON: Are you instructing him not
6 to answer, or is he simply not answering on his own?

7 MR. GREENE: You have his answer.

8 MS. BARTILSON: And no instruction from the
9 attorney?

10 MR. GREENE: The record will speak for
11 itself.

12 MS. BARTILSON: Do you want to remind him of
13 his obligations?

14 MR. GREENE: Continue with your questions.

15 MS. BARTILSON: Well. That's clearly
16 intended in the line of questioning that was cut off in
17 the previous deposition.

18 THE WITNESS: What is the question? How
19 does it read, your question there?

20 MS. BARTILSON: Well, the question also goes
21 into the whole purpose of the line of questioning. That
22 has to do with the Fraudulent Conveyance Act. And we are
23 certainly entitled to find out where all the money went
24 out suddenly before you started to -- reaching your
25 agreement pitch willy-nilly.

1 MR. GREENE: I think you better pitch up
2 with a judgment in hand before you start making those
3 sorts of claims.

4 MS. BARTILSON: Well, all right.

5 Q. Jerry, how much -- what was the value of the
6 real property that you gave away in August of 1990?

7 A. Is that a question from there?

8 Q. Yes.

9 A. May I have it read to me, please.

10 Q. "Question: What did you have in August 1990
11 that you gave away?

12 "Answer: Cash, property, stocks, rights and
13 debts owed to me.

14 "Question: Okay. Let's start with the
15 cash. How much cash did you give away.

16 "Answer: I don't think that's appropriate
17 for me to get into. I decline to answer.

18 "Question: Well, I will tell you why it is
19 relevant. And if it isn't, it can be made relevant by
20 the Complaint. Under the Fraudulent Conveyance Act
21 fraudulent conveyances are defined in a number of ways
22 including transfers without consideration which these are
23 by virtue of Mr. Armstrong's testimony."

24 Then we went on with more colloquy, and you
25 refused to answer and told our counsel that you wouldn't

1 answer any more questions on the subject, so that's the
2 area. That's what I am entitled to and that is another
3 question.

4 What was the value of the real property that
5 you gave away in August of 1990?

6 A. I don't know.

7 Q. How much real property did you give away in
8 August of 1990?

9 A. I was on title on one property.

10 Q. Where was that located?

11 A. 707 Fawn Drive.

12 Q. To whom did you convey it?

13 A. Michael Walton.

14 Q. Did you live at 707 Fawn Drive?

15 A. Yes.

16 Q. Did you continue to live there after you
17 conveyed the title to him?

18 A. Off and on.

19 Q. What was the value of the stocks that you
20 gave away in August of 1990?

21 A. A million.

22 Q. To whom did you give the stocks?

23 A. I decline to answer that.

24 Q. Were the stocks stocks in public-traded
25 corporations?

1 A. No.

2 Q. Private corporations?

3 A. Yes.

4 Q. What corporations?

5 A. It is The Gerald Armstrong Corporation.

6 Q. How did you ascertain the value of those
7 stocks at one million dollars?

8 A. Through a logical assessment of the value of
9 the assets.

10 Q. Did you have any kind of independent
11 appraiser appraise the value of the stocks or the
12 underlying assets?

13 A. No, as to that transaction.

14 Q. Did you do that at some other point in time?

15 A. I have had pieces of work evaluated.

16 Q. Is this pieces of work that were property of
17 the Gerald Armstrong Corporation?

18 A. Correct.

19 Q. When did you have those pieces of work
20 evaluated?

21 A. Some time in the past.

22 Q. Before or after August of 1990?

23 A. Before.

24 Q. And the individual pieces of work that you
25 had evaluated prior to August of 1990 were all still in

1 the record?

2 MR. GREENE: I don't care to add to that. I
3 think Mr. Armstrong's position is well-taken. I don't
4 think you are entitled to ascertain the identity of all
5 of the people who owed him money and the forgiving of
6 those debts.

7 So go ahead.

8 MS. BARTILSON: Q. Mr. Armstrong, what
9 was the value of the rights that you owned in August of
10 1990 that you have testify you gave away?

11 MR. GREENE: It has been asked and
12 answered.

13 MS. BARTILSON: No, it hasn't.

14 MR. GREENE: He gave you what his evaluation
15 was -- a million-and-a-half dollars, I believe. Maybe
16 you are asking --

17 MS. BARTILSON: That's assets. He separated
18 out those assets into cash, property, stocks, rights and
19 debts owed to him. And now we have asked about each of
20 the first three. Now we are into the fourth.

21 MR. GREENE: That is fine.

22 THE WITNESS: Then in addition I would say
23 there's possibly two million dollars in rights.

24 MS. BARTILSON: Q. When you use the word
25 rights, Mr. Armstrong, can you explain to me what sorts

1 of rights you intended that to encompass?

2 A. The rights were flow from the ownership of
3 inventions, marks, copyrighted works.

4 Q. So we are talking about trademarks,
5 copyrights, patents essentially or works that could be
6 trademarks?

7 A. Inventions, artistic, correct.

8 Q. Could be copyrighted or could be patented?

9 A. Correct.

10 Q. Those, your estimated value is at two
11 million dollars?

12 A. Correct.

13 Q. How many inventions did you give away or
14 rights to inventions did you give away in August of
15 1990?

16 A. I think that the number of my inventions
17 goes beyond what is relevant in this lawsuit and I
18 decline to answer.

19 Q. Well, I would just like --

20 A. Nor what they are.

21 MR. GREENE: I need to take a two-minute
22 break.

23 MS. BARTILSON: No problem.

24 (Recess taken.)

25 (Record Read.)

1 MS. BARTILSON: Q. Mr. Armstrong, I am
2 not asking you to tell me the number of your inventions.
3 I am asking you to tell me the number of rights to
4 inventions that you gave away in August of 1990? Just so
5 it's very clear that is the question. You understand
6 that to be the question?

7 A. Right. Okay. So again, I would decline to
8 answer beyond what I have.

9 Q. What was the estimated value of the rights
10 to inventions that you gave away in August of 1990?

11 A. Haven't I already answered that? Two
12 million for rights.

13 Q. You said for rights. Then you broke down
14 rights into inventions, marks and copyrightable
15 material. So now I am asking you about the value of the
16 inventions out of that two million?

17 A. Oh. I'd say that inventions would be
18 \$150,000.

19 Q. Did you have the rights to inventions that
20 you gave away in August of 1990 evaluated by anyone to
21 ascertain their value before you gave them away?

22 A. No.

23 Q. So the estimate is your estimate?

24 A. Correct.

25 Q. Do you know if anyone was ever been able to

1 connect on the rights to -- on inventions that you gave
2 away?

3 A. I don't know.

4 Q. If I ask you to whom you gave them, you
5 wouldn't tell me; is that correct?

6 A. Correct.

7 Q. And approximately how many rights to
8 copyrighted or potentially copyrightable works did you
9 give away in August of 1990?

10 A. I don't know how those things would be
11 broken down, that is, into how many specific different
12 copyrightable works. But there was a significant body of
13 them, so let's just call it one.

14 Q. Did you transfer that large body of work to
15 The Gerald Armstrong Corporation in August of 1990?

16 A. No. The Gerald Armstrong Corporation
17 already owned those things.

18 Q. So was it The Gerald Armstrong Corporation
19 transferring it away or the right to it away?

20 A. Gerald -- The Gerald Armstrong Corporation
21 owned a number of things. I gave away the corporation.
22 The corporation possessed a number of assets.

23 Q. So at the beginning -- at the end of the
24 transaction the corporation still owned the assets, but
25 different people owned The Gerald Armstrong Corporation?

IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF LOS ANGELES

--oOo--

CHURCH OF SCIENTOLOGY)
INTERNATIONAL, a California)
not-for-profit religious)
corporation,)
)
Plaintiff,)
)
vs.)
)
GERALD ARMSTRONG; and)
DOES 1 through 25, inclusive,)
)
Defendants.)
-----)

**CERTIFIED
COPY**

Case No. BC 052395

DEPOSITION OF MICHAEL WALTON

Pages 1 - 61

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February 24, 1993

--oOo--

1 my lawyer files and I don't know if they belong --
2 some of them, I'm sure, belong to Gerald Armstrong.

3 Q. Let's exclude those.

4 A. No.

5 Q. So excluding attorney-client files, you
6 hold no property for or on behalf of Gerald
7 Armstrong.

8 A. No.

9 Q. And he's never transferred any property
10 to you.

11 A. Yes, he has.

12 Q. What has he transferred to you?

13 A. He transferred his interest in Fawn
14 Drive to me.

15 Q. And what consideration did you pay him
16 for that?

17 A. None.

18 Q. It was a gift?

19 A. Yes.

20 Q. And when did that occur?

21 A. I think it was around the time of the
22 Desert Storm. I don't -- I really don't -- I'm not
23 quite sure. I can tell you it was -- it was
24 approximately a year before the -- No, I can't tell
25 you that either. I'm not really sure.

1 Q. Do you know why he transferred it to
2 you?

3 A. I know what he told me.

4 Q. What did he tell you?

5 A. I'm trying to remember it. Let me think
6 about it and see if I can remember under what
7 circumstances.

8 I don't believe this has any relation to
9 any representation. Jerry told me that he'd had a
10 vision from God.

11 Q. That's it?

12 A. That's the reason. That's when he
13 divested of all property that I know of.

14 Q. Where is Jerry living now, do you know?

15 A. No, I don't. I think he's living on Sir
16 Francis Drake. 711, I think.

17 Q. That's one of the -- that's either
18 adjacent to or the office where Ford Greene has his
19 practice?

20 A. That's my understanding although I've
21 never been there.

22 Q. Other than Fawn Drive, did Mr. Armstrong
23 give you any other property at that time?

24 A. Yes.

25 Q. What else?

1 A. A dining room table and I think a
2 ladder.

3 Q. Let's forget about the dining room table
4 and the ladder. That's it, just the dining room
5 table, the ladder and the house; is that right?

6 A. Yes.

7 Q. No cash?

8 A. No, there was a cash fund that was set
9 up to run the house for a year and that -- my name
10 was already on that although it was my understanding
11 that it was -- it was to be transferred and still to
12 be used for the house if I wanted it.

13 Q. You and Mr. Armstrong became involved in
14 a partnership that owned 711 Fawn Drive, is that
15 right? I got the address wrong. Let's just call it
16 Fawn Drive.

17 A. Well, at this point you know I have to
18 -- I made a judgment to -- At some point this
19 invades my right of privacy, personal privacy. I'm
20 not sure what my -- my dealings with Mr. Armstrong
21 have to do with this litigation. When I asked
22 Ms. Bartilson, she said there was some concern that
23 he had fraudulently transferred property and I'm not
24 sure how that -- I didn't -- I haven't read the
25 pleadings but I haven't seen any allegations of

1 fraudulent transfer. I am aware that from asking
2 Mr. Armstrong this morning about the pleadings, that
3 the -- the pleadings plead allegations that
4 Mr. Armstrong did certain things approximately a
5 year after he transferred the property to me, his
6 interest in the property to me, so unless I know,
7 unless I can see that there's some relationship
8 between my personal finances and my personal
9 dealings with Jerry at that level, I'm really not --
10 I'm really not inclined to answer.

11 Q. I don't want to know about your personal
12 finances so -- I only want to know what
13 Mr. Armstrong transferred to you, and let me ask you
14 this. You said he transferred his interest in the
15 property. Was that an interest as a joint tenant in
16 the property or was it an interest in the
17 partnership that owned the property?

18 A. Well, that's what I'm -- what I'm
19 telling you is that I don't see any relevance to any
20 transfers to this litigation. Now if you can
21 explain it to me in such a way that I understand,
22 I'm certainly willing to cooperate.

23 Q. Well, Ms. Bartilson explained it to you.

24 A. No. She did but she didn't. She said
25 that there was no judgment, that -- I said unless

1 there's -- unless you have a judgment, I don't see
2 that you have any right to try to find any of his
3 hidden assets, if any, to which she didn't reply.

4 Q. Well, no. Actually, that's not correct
5 because Fraudulent Conveyance Statute does not
6 require that you have a judgment before you may take
7 advantage of it. There can be allegations of
8 fraudulent advances made by any creditor. And "a
9 creditor" is defined by the statute to include
10 anyone that has a claim, whether liquidated or
11 unliquidated. The claim --

12 THE REPORTER: I'm sorry. "The
13 claim" --

14 MR. WILSON: Q. The claim asserted by
15 the Church of Scientology in this litigation would
16 be -- would be -- would qualify as a claim under the
17 Fraudulent Conveyance Statute and would -- and would
18 entitle the plaintiff to prove fraudulent conveyance
19 at trial and not have to wait.

20 A. If the allegations are made somewhere,
21 then if there are pleadings that allege that there
22 have been fraudulent conveyances, I'm more than
23 willing to cooperate. If you're just saying you may
24 do that, on that basis I'm not -- I'm not going to
25 discuss --

1 Q. We're going to have to bring you back
2 anyway so I guess it doesn't really matter.

3 As the attorney for the Gerald Armstrong
4 Corporation, do you hold or maintain any documents
5 on behalf of that corporation?

6 A. I'm not sure. I'm not sure if -- I do
7 have documents but I'm not sure if they're Jerry's
8 or they belong to the corporation.

9 Q. Can you tell me generally what you've
10 got, whether you got them from Jerry or you got them
11 from the corporation?

12 A. I'm sorry?

13 Q. What documents do you have generally,
14 whether they're documents you got from Jerry or
15 documents you got from the corporation?

16 A. Writings and drawings.

17 Q. Okay. Do you have any contracts or
18 any -- anything besides writings and drawings?

19 A. Pleadings. I have a lot of pleadings.

20 Q. Let's talk about the pleadings. What
21 cases do those pleadings relate to?

22 A. Well, certainly the Breckenridge case,
23 and I know in a lot of the pleadings there are
24 references to other cases. I think there's -- I
25 mean I can't -- I don't know the names of them.

EXHIBIT C

DECLARATION OF THOMAS C. SPRING

I, THOMAS C. SPRING, hereby declare:

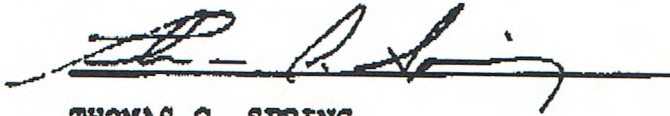
1. I am currently an attorney admitted to the Bars of the District of Columbia and California. I represented the various Church of Scientology entities during a series of negotiations between them and the Internal Revenue Service which resulted in the formal recognition of tax-exempt status on October 1, 1993 of United States Church of Scientology organizations. I am fully familiar with all aspects of the process that led to recognition of these exemptions.

2. In granting these exemptions, the IRS conducted an exhaustive review over a two-year period encompassing over 12 linear feet of documentation submitted for that purpose. The IRS required extensive responses to numerous detailed questions, ranging from questions regarding church activities and financial affairs to civil litigation and various accusations of Church detractors. All of the detailed questions asked by the IRS were answered. The IRS's extensive queries into the financial structure of the Churches on the Scientology hierarchy, the services they deliver, the organization of individual churches, the receipt and disbursement of donations, and a myriad of other detailed inquiries were fully satisfied in the process. The IRS questions were delving and sought explanations of the most inflammatory accusations and "information" regarding Scientology and its Churches. After receiving the responses, the IRS was satisfied that the Churches were organized and operated exclusively for charitable and religious purposes and therefore

granted them tax-exemption.

I declare under penalty of perjury under the laws of California and the United States that the foregoing is true and correct.

Executed this 12th day of November 1993, in Washington, D.C.

A handwritten signature in dark ink, appearing to read 'Thomas C. Spring', is written over a solid horizontal line.

THOMAS C. SPRING

PROOF OF SERVICE

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

I am employed in the County of Los Angeles, State of California. I am over the age of eighteen (18) years and not a party to the within action. My business address is 6255 Sunset Boulevard, Suite 2000, Los Angeles, CA 90028.

On November 12, 1993, I served the foregoing document described as PLAINTIFF'S MEMORANDUM OF POINTS AND AUTHORITIES IN OPPOSITION TO DEMURRER AND MOTION TO STRIKE on interested parties in this action,

by placing the true copies thereof in sealed envelopes as stated on the attached mailing list;

by placing the original true copies thereof in sealed envelopes addressed as follows:

FORD GREENE
HUB Law Offices
711 Sir Francis Drake Blvd.
San Anselmo, CA 94960-1949

MICHAEL WALTON
707 Fawn Drive
San Anselmo, CA 94960

GERALD ARMSTRONG
715 Sir Francis Drake Boulevard
San Anselmo, CA 94960-1949

THE GERALD ARMSTRONG CORPORATION
715 Sir Francis Drake Boulevard
San Anselmo, CA 94960-1949

BY MAIL

*I deposited such envelope in the mail at Los Angeles, California. The envelope was mailed with postage thereon fully prepaid.

As follows: I am "readily familiar" with the firm's practice of collection and processing correspondence for mailing. Under that practice it would be deposited with U.S. postal service on that same day with postage thereon fully prepaid at Los Angeles, California in the ordinary course of business. I am aware that on motion of party served, service is presumed invalid if postal

cancellation date or postage meter date is more than one day after date of deposit for mailing an affidavit.

Executed on _____ at Los Angeles, California.

** (BY PERSONAL SERVICE) I delivered such envelopes by hand to the offices of the addressees.

** Such envelopes were hand delivered by Messenger Service

Executed on November 12, 1993, at Los Angeles, California.

(State) I declare under penalty of the laws of the State of California that the above is true and correct.

(Federal) I declare that I am employed in the office of a member of the bar of this court at whose direction the service was made.

Print or Type Name

Signature

* (By Mail, signature must be of person depositing envelope in mail slot, box or bag)

** (For personal service signature must be that of messenger)